

FDIC State Profile

Summer 2005

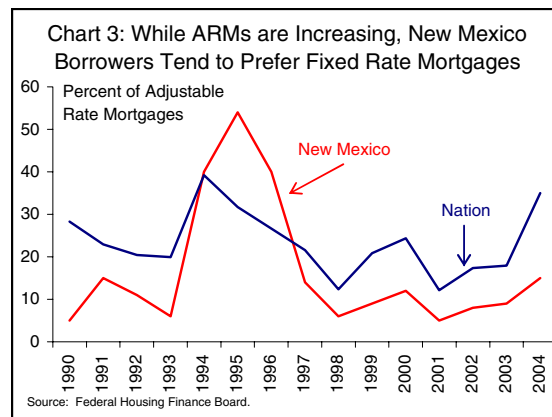
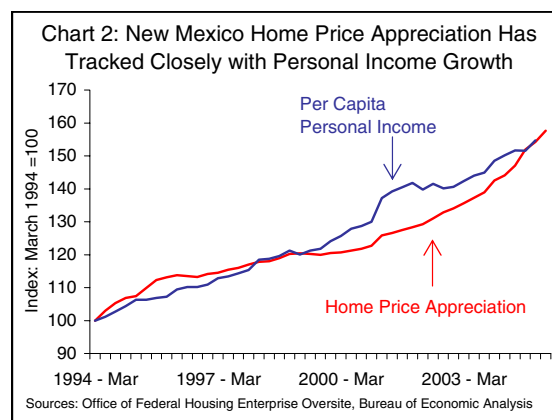
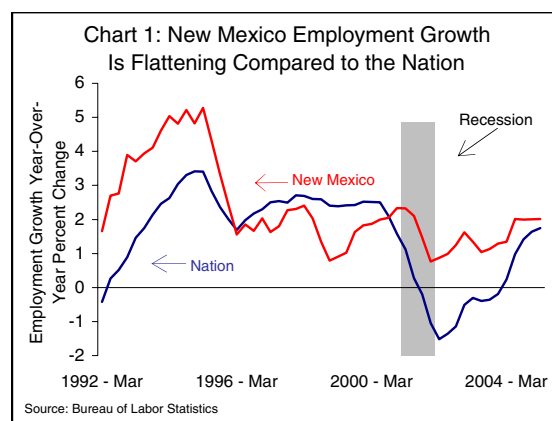
New Mexico

New Mexico's employment growth faces challenges.

- Unlike the rest of the nation, which was slow to achieve post recessionary job growth, New Mexico's employment growth has held steady—between 1 and 2 percent since midyear 2002—largely because of the state's significant and historically stable federal employment base. As of first quarter 2005, New Mexico reported employment growth of 2 percent¹ (See Chart 1).
- The release of the Pentagon's proposed base realignment and closure list could threaten the employment stability of some of the state's local economies. Cannon Air Force Base, located near **Clovis**, is slated for closure; more than 2,700 civilian and military jobs would be eliminated. These job losses could translate into an estimated loss of \$200 million annually for the Clovis and nearby **Portales** economies.²

The New Mexico information and manufacturing sectors are still losing jobs.

- Although the state has been adding jobs on a consistent basis for the past three years, the information sector has been losing jobs since first quarter 2002. The telecommunications sector has been struggling with overcapacity and lack of pricing power, and has yet to take part in the post recession recovery. The information sector reported job losses of 7.3 percent from a year ago.
- Additionally, the manufacturing sector has been unable to post positive job growth since second quarter 2001. This sector reported flat job growth on a year-over-year percent basis for first quarter 2005, but the April 2005 monthly data reported a 0.56 percent year-over-year loss illustrating the sector's continuing problems.
- The natural resources and mining sector and the construction sector led the state in employment growth with 8.3 and 6.2 percent, respectively. The upward price



¹This data is seasonally adjusted and may differ from the at a glance page data which is non-seasonally adjusted.

²Miguel Navrot, "Base Closings: Black Friday For Clovis," Albuquerque Journal, May 13, 2005.

pressure on oil and gas products stimulated mining and support activity employment. In-migration is fueling new jobs in the construction sector to meet the growing housing demand.

New Mexico's housing prices remain in check.

- New Mexico home price appreciation has tracked closely with personal income growth (See Chart 2). Specifically, over the ten-year period 1994 to 2004, home prices increased by 54.2 percent, and per capita personal income grew by 54.7 percent.
- New Mexico reported year-over-year first quarter 2005 home price appreciation of 9.4 percent, which is below the U.S. rate of 12.5 and ranks 25th in the nation for home price appreciation.
- New Mexico's affordable home prices combined with attractive climate and natural amenities will continue to benefit the state as an enticement for people and business to relocate. New Mexico's net in-migration has increased 12.6 percent³ during 2002 to 2004.

New Mexico's residential loan quality remains favorable.

- The percentage of New Mexico homebuyers using adjustable-rate mortgages (ARMs) has increased modestly over the past several years (See Chart 3).
- New Mexico insured institutions continue to report relatively low mortgage loan past-due and charge-off rates.

An expanding New Mexico real estate market is prompting strong demand for construction lending.

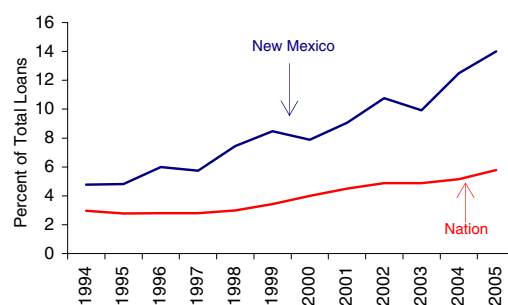
- New Mexico commercial and residential real estate building permits remain exceptionally vibrant, contributing to strong growth in construction lending concentrations. As of first quarter 2005, construction and development loans at the state's insured institutions represented 14 percent of total loans; more than twice the national rate (See Chart 4).
- Rapid growth in commercial real estate (CRE) lending for New Mexico insured institutions reached record levels and now represents 29 percent of total loans, or twice the national rate.
- A potential downside risk is noted in the **Albuquerque** industrial CRE segment. According to Torto Wheaton Research, the metropolitan area's industrial availability is expected to weaken in 2005 and 2006 as manufacturing and distribution properties continue to consolidate in larger markets.

- However, New Mexico banks and thrifts continue to report low CRE loan past-due and charge-off rates, among the lowest in a decade and below the national averages.

New Mexico insured institution performance is strong and improving.

- The median return-on-assets ratio reported by institutions headquartered in New Mexico during first quarter 2005 was 1.14 percent, almost 20 basis points higher than the same period last year and above the national average.
- Almost 75 percent of insured institutions in New Mexico hold less than \$250 million in assets; earnings of these institutions are driven, in large part, by the net interest margin (NIM). Many community financial institutions remain asset sensitive and have benefited from the recent increase in short-term interest rates. As a result, the yield on earning assets has outpaced the cost of funding in the first quarter of 2005 when compared to the same period last year. An improved NIM coupled with a lower provision expense has supported increased profitability.
- Past-due and charge-off rates continued to drop to some of the lowest levels in a decade. Improving credit quality has allowed the provision expense to remain at decade low levels; however, there is little room for further declines in this expense.

Chart 4: New Mexico Institutions Have a Growing Appetite for Construction and Development Loans



Source: FDIC Bank and Thrift Call Reports, data as of March 31 for each year.

³Economy.com

New Mexico at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.9%	1.6%	1.4%	0.9%	2.4%
Manufacturing (5%)	0.0%	-3.0%	-5.3%	-8.1%	2.1%
Other (non-manufacturing) Goods-Producing (8%)	6.7%	5.3%	-1.2%	-2.6%	8.8%
Private Service-Producing (62%)	1.5%	1.4%	1.8%	1.4%	2.4%
Government (25%)	1.9%	1.9%	2.5%	2.8%	0.6%
Unemployment Rate (% of labor force)	5.6	5.8	5.8	5.2	4.8

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	6.8%	3.1%	2.8%	9.7%
Single-Family Home Permits	-3.1%	21.5%	31.6%	-7.1%	-1.8%
Multifamily Building Permits	-32.5%	-42.1%	-30.1%	148.3%	132.5%
Existing Home Sales	11.9%	0.0%	23.9%	28.8%	18.8%
Home Price Index	9.4%	6.2%	4.9%	2.7%	4.3%
Bankruptcy Filings per 1000 people (quarterly level)	1.32	1.26	1.41	1.24	1.24

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	58	59	60	63	63
Total Assets (in millions)	15,943	15,073	19,364	18,689	18,258
New Institutions (# < 3 years)	1	1	5	7	8
Subchapter S Institutions	26	25	24	23	21

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.30	1.65	1.65	2.16	2.34
ALLL/Total Loans (median %)	1.36	1.32	1.38	1.29	1.29
ALLL/Noncurrent Loans (median multiple)	2.25	1.72	1.24	1.51	1.45
Net Loan Losses / Total Loans (median %)	0.18	0.22	0.21	0.27	0.20

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	8.74	8.55	8.66	8.39	8.66
Return on Assets (median %)	1.26	1.16	1.22	1.22	1.22
Pretax Return on Assets (median %)	1.79	1.60	1.67	1.64	1.68
Net Interest Margin (median %)	5.20	5.14	5.12	5.21	5.14
Yield on Earning Assets (median %)	7.36	7.28	7.39	7.58	7.93
Cost of Funding Earning Assets (median %)	2.34	2.30	2.44	2.55	2.88
Provisions to Avg. Assets (median %)	0.16	0.20	0.18	0.21	0.17
Noninterest Income to Avg. Assets (median %)	0.76	0.82	0.86	0.90	0.78
Overhead to Avg. Assets (median %)	3.58	3.44	3.50	3.51	3.55

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	60.9	61.8	58.5	57.5	58.6
Noncore Funding to Assets (median %)	19.1	19.9	19.0	20.1	20.2
Long-term Assets to Assets (median %, call filers)	20.3	19.0	19.9	19.5	14.5
Brokered Deposits (number of institutions)	8	8	9	10	8
Brokered Deposits to Assets (median % for those above)	2.8	1.1	2.0	2.2	3.0

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	100.1	103.8	108.5	108.7	116.9
Commercial Real Estate	236.6	233.7	213.4	186.3	165.5
<i>Construction & Development</i>	43.6	43.2	33.6	34.4	39.6
<i>Multifamily Residential Real Estate</i>	8.1	5.0	4.5	4.7	4.5
<i>Nonresidential Real Estate</i>	150.8	166.3	149.3	135.6	117.1
Residential Real Estate	136.7	131.8	135.5	137.1	136.4
Consumer	34.4	42.8	55.2	58.5	70.9
Agriculture	16.4	17.8	12.8	12.9	13.2

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Albuquerque, NM	23	7,742	< \$250 million	42 (72.4%)
Santa Fe, NM	11	1,751	\$250 million to \$1 billion	12 (20.7%)
Las Cruces, NM	16	1,236	\$1 billion to \$10 billion	4 (6.9%)
Farmington, NM	7	888	> \$10 billion	0 (0%)